Public
Key Decision – No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	One Leisure Update Report
Meeting/Date:	Cabinet – Thursday 19 March 2015
Executive Portfolio:	Councillor Robin Howe – Executive Member for Commercial Activities
Report by:	Head of Leisure and Health
Ward(s) affected:	All Ward(s)

EXECUTIVESUMMARY

To update Cabinet on the performance of One Leisure to date and to inform the Cabinet of the strategic direction One Leisure is taking

One Leisure has produced a financial deficit since its first year of formation, with annual losses exceeding as much as £2m in the relatively recent past. The emphasis has previously been placed simply upon the provision of good leisure services and without reference to commercial performance, with the result that operating expenses and capital investment have never been seriously matched to income targets This situation has now changed with the arrival of new management and a portfolio holder who has demanded a more commercial approach be applied to the service. The emerging strategic financial direction is as follows:

- A breakeven position before capital costs must be achieved by the end of 2014/15
- A breakeven position after capital costs and attributable central costs must be achieved in 2015/16
- A net return (EBIT) of 5% must be achieved in 2016/17
- A net return (EBIT) of 10% must be achieved in 2017/18
- All five leisure sites, the SI Outdoor Centre and the Burgess Hall will continue to operate into the future,
- a modest operating loss may be tolerated at Ramsey and Sawtry in the interests of retaining the local service

. This reports aims to explain how One Leisure is being restructured and with the help of a new management regime to help achieve realistic growth objectives with a reduced cost base without significant reduction to service levels.

Recommendation(s):

There are no recommendations arising from this report

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1. ANALYSIS

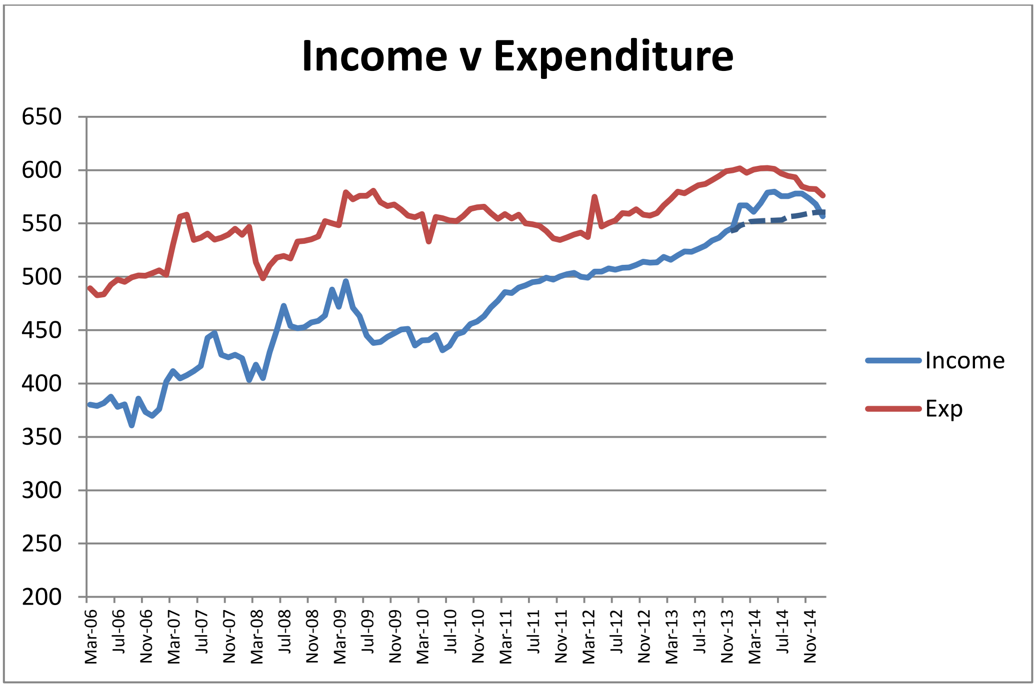
1.1 Financial Performance

The 2014/15 budget included unrealistic targets for OLSI to help mitigate the re-development costs and across the OL Group the pay review unexpectedly added over £200k to the annual payroll, with the result that a budget deficit will once again be realised in 2014/5, although at a reduced net cost per head. This was -£0.22 in 2011/12 and is expected to out-turn at -£0.07 in 2014/5.

A management forecast made mid-year predicted reduced revenues of £6.8m (Budget £7.6m) with expenses of £6.9m (Budget £7.5m) with a reducing cost base and a converging breakeven point. Over the last 12 months One Leisure management, both central and at individual Centre level have been made more directly accountable for both service and financial performance levels. A monthly Board meeting has been established, involving Centre Mangers, Business Development Manager, Head of Service, Corporate Director and Portfolio Holder, at which result development, business initiatives and marketing plans are closely reviewed. This more rigorous regime has empowered management to learn to forget the historic restrictions imposed by previous regimes, and focus on achieving better and up to date knowledge of the business and clearer understanding of both how to reduce expenditure and maximise opportunities to generate income and retain users.

The OL cost base was reduced in 2014 following a management restructure and this is reflected in steadily reducing expenses from November last year The Facing the Future and ZBB processes identified a range of additional measures designed to both further reduce expenses and increase income and these are being implemented at the moment

It is estimated that 2014 a £125k net deficit (as predicted as part of the ZBB process) for this financial year as a worst case scenario, however current indications are that the operating loss will be below £100k, an improvement of £250-300k over the prior 2013/4 year.



The hashed line in the graph above normalises payments received for full year 2014, recognised fully in January 2014.

The three larger sites (**St Ives / St Neots / Huntingdon**) will all show a positive operating result (before capital charges) at year end. St Neots is outperforming the other sites with St Ives, despite the recent investment still showing growth levels below earlier expectations. Huntingdon (with Call Centre expenditure removed) should see a net profit for the first time this year and with plans to deliver an improved Impressions business model, should see this further developed over the next few years.

Ramsey has halved its operating loss this year to (forecast) £50k aided by pro-active management and with no investment, despite the Crèche and Health Suite still delivering a significant loss. With modest investment and a more critical approach to loss making services, it is possible that above break-even can be achieved in the next 2-3 years.

Sawtry has suffered from the financial problems of Sawtry College, exacerbated by pay and recruitment problems and by its geographical location, affecting its upper catchment areas in and around Hampton (Peterborough). With a net deficit expected of just under £200K a major restructure is being planned which will match opening times and staffing levels to demand and reduce the breakeven point significantly.

A review of the current usage and non-usage patterns for Sawtry has been undertaken. Which has identified there is potential to rationalise the centre opening times and services offered. This would reduce the staffing cost base for the site significantly – potentially in the region of £100K. This work is continuing and is considering the financial impact in terms of potential reduced income, as well as looking to mitigate the impact upon users of the site before any changes are implemented

Crèche A review of the Crèche service across all sites has been undertaken. The following table provides the financial analysis of the operation.

	Staffing expenditure	Other Expenditure	Total Expenditure	Income casual	Income Advantage DD	Income Advantage Annual	Total Income	Profit / loss	Admissions	Cost per head
OLH	30,473.00	80.00	30,553.00	350.00	22,654.00	2,546.00	25,550.00	-5,003.00	10,812.00	-0.46273
OLSN	35,977.00	200.00	36,177.00	50.00	29,337.00	4,211.00	33,598.00	-2,579.00	19,505.00	-0.13222
OLR	17,730.00	222.00	17,952.00	20.00	8,603.00	1,531.00	10,154.00	-7,798.00	5,039.00	-1.54753
OLS	19,253.00	18.00	19,271.00	90.00	8,730.00	1,634.00	10,454.00	-8,817.00	6,231.00	-1.41502
OLSI	35,475.00	326.00	35,801.00	316.00	20,967.00	3,752.00	25,035.00	-10,766.00	15,939.00	-0.67545
Totals	**138,908.00**	**846.00**	**139,754.00**	**826.00**	**90,291.00**	**13,674.00**	**104,791.00**	**-34,963.00**	**57,526.00**	**-0.85**

It is recognised that the provision of a crèche is a unique selling point to membership sales. One Leisure will actively seek to maintain a crèche provision at sites where a break even operation (or significant cost recovery) can be achieved, this is OLH, OLSI and OLSN. The crèche provision at OLS is unsustainable due to the small local catchment area and limited offerings. The ongoing provision of the crèche facility will be factored into the rationalisation of the operation on the site. OLR will be continually monitored and cost saving measures implemented to reduce financial losses.

A new charge for the use of the crèche will be introduced alongside the new membership and pricing options. Customers will be able to purchase a crèche card for £25 which will provide 10 x 60 minute sessions

Financial Summary. The following tables provide a financial summary report of the for each site from April 2014 to January 2015, along with an activity summary across all sites. This Illustrates year to date actuals compared to budget, as well as previous years to date as a comparator.

All Centres - Net					Apr-Jan 2014/15	
	Previous Year To Date	Actual To Date	Apr-Jan Target (83%)	Previous Year Full Year (13/14)	Full Year Budget Target	Full Year Forecast
- Huntingdon	0	(22)	40	(11)	50	15
- (Call Centre)	(165)	(151)	(171)	(209)	(208)	(203)
- Ramsey	(97)	(32)	(139)	(111)	(167)	(71)
- Sawtry	(122)	(172)	(160)	(155)	(193)	(188)
- St Ives	(7)	89	276	(79)	333	238
- (B Hall)	137	167	165	155	199	
- St Neots	175	225	172	191	207	222
- Other	(192)	(138)	(125)	(252)	(150)	(167)
Total	(271)	(34)	58	(471)	71	(150)

One Leisure Group Financial Summary Report						Apr-Jan 2014/15
	Previous Year To Date	Actual To Date	Apr-Jan Target	Previous Year Full Year	Full Year Budget Target	Full Year Forecast
Income			(83%)			
- Swimming	1,133	1,176	1,157	1,372	1,394	1,421
- Impressions	2,270	2,276	2,365	2,598	2,849	2,713
- Hospitality	616	636	744	768	896	807
- Indoor Acts	1,146	1,089	1,525	1,405	1,837	1,347
- Outdoor Acts	146	151	184	201	222	205
- Education	312	261	272	385	328	299
- Other	17	4	20	12	24	4
Total	5,638	5,593	6,267	6,740	7,550	6,796
Expenditure			(82%)			
- Employees	(3,680)	(3,553)	(3,788)	(4,423)	(4,620)	(4,282)
- Buildings	(1,240)	(1,138)	(1,182)	(1,508)	(1,442)	(1,452)
- Transfer	0	0	(74)	(87)	(90)	(97)
- Supplies	(991)	(935)	(1,067)	(1,126)	(1,301)	(1,118)
Total	(5,911)	(5,626)	(6,133)	(7,202)	(7,479)	(6,949)
Operating Result	(273)	(33)	134	(375)	71	(153)
Capital Charges					(164)	(164)
Current Trading Result					(93)	(290)

1.2 Management Restructure.

Managers have been informally notified of an impending management restructure and the formal consultation process will commence late March/ early April. This was a step previously identified through the ZBB process and the purpose of this review is to create an effective and focussed management structure, designed to take the One Leisure business forward.
It will also contribute to the £81K savings identified within the 2015/6 budget

1.3 New Impressions Membership Package

For the last 13 years the ‘Advantage’ membership package has provided exceptional value for money. Monthly or annual direct debit members receive the unlimited use of the gyms, all fitness classes, swimming (for member and siblings U16), and free crèche and racket sports.

However, the high monthly fee level has acted as a deterrent to customers who wish to use only limited services and sites.

Moreover, the monolithic pricing system makes it more difficult to compete with lower cost competitive offering in the locality; such as the soon to open Sports Direct site in Huntingdon.

The decision to ‘unbundle’ the subscription package will allow the creation of a new set of membership options to be introduced in April. The new packages have been created so that new members are only paying for what they use at a fairer and more competitive price. They will be offered in four new packages.

- Premier — gym, swim and classes at all five One Leisure sites
- Solo — gym at one chosen site only, with a price differential for the smaller sites at OLR and OLS
- Aqua — swim at all five One Leisure sites
- Business — can choose Premier, Solo or Aqua for 10% discount

Additional features of the new system are designed to

- Reduce the number of membership options so it is easier to compare, such that members can make informed choices.
- Make the smaller sites in Ramsey and Sawtry more competitive with different pricing (latent demand research has identified increase demand based on price).
- Stop giving away the opportunity to generate additional income from other services at One Leisure.
- Ability to create highly competitive headline prices to counter local competition
- The impact of these changes has been carefully modelled to ensure it does not lead to a loss of revenue from existing members. The new packages are used as a retention tool for current advantage members (so they keep their current benefit including the free use of the crèche).

The existing Advantage membership will no longer be available for new members (only for those renewing) therefore if an advantage member chose to switch to a new package it would not be possible to switch back in the future. It is forecasted that the average monthly yield per member will increase from £32.48 to £35.89 (increase by 10.5%) for monthly direct debit members and for annual memberships it will increase from £26.59 to £31.05 (increase by 16.5%).

1.4 Investment Programme

To maintain and continue to grow the income streams to One Leisure it is vital that the facilities are invested in. Contained within the 2015/6 budget a number of capital projects have been included subject to final approval of the business cases for each. These are:

- Future Improvements – Identified within the condition survey - £231K
- Impressions rolling programme of the replacement of equipment £200K (The option to lease is being explored and therefore may be a revenue charge rather than capital cost)
- OLSN 3G pitch replacement - £392K
  This is dependent on the successful submission and grant funding from Sport England of £274K. This will provide an additional Income stream to the facility through increased usage, with a pay back within 2018/19
- OLH Impressions Extension - £795K
  This project will double the size of the current fitness studio and re-position the café and Leo's Funzone into a currently underutilised area, maximising the use of the space available. The work will be undertaken without the need to close the centre during the build programme and the impact of any revenue loss will be included in the business case.
  Preliminary estimates suggest a 3-4 year payback on the investment coming mainly from increased usage and improved retention

1.5 Accounting for Capital Costs

The monthly accounts for One Leisure now include a charge related to the "non fixed assets capital" in each centre ie mainly equipment and fittings required to provide the service but excluding buildings and related plant and equipment.
The total invested capital is c£650k and the annual charge borne proportionately by the centres is c£160k.

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2. RISKS and HOW WILL THEY BE ADDRESSED?

2.1 There are inherent risks with all of the activities and initiatives identified within this report. The key considerations are whether the income targets will be achieved dependent upon the success of marketing, users experience and user habits, and whether the predicted reduction in expenditure materialises. This will be mitigated against through strong management and constant review and reporting, both day to day and through the Board Structure.

3. LINK TO THE LEADERSHIP DIRECTION

3.1 These proposed changes and initiatives support the corporate plan and strategic direction of the council in the following way:-

- A strong local economy – One Leisure provides good quality services that make the district a better place to live and work. Additionally providing significant employment opportunities within the centres, as well as developing and investing in the skills of the workforce
- Enabling Sustainable Growth – Enhancing the built environment through the capital investment programme
- Working with our communities – to improve the range of facilities and opportunities for the community to improve their health and wellbeing.
- Ensuring we are a customer focussed and service led council – Currently the Centre admissions is up on previous years with 1.86m admissions to the end of January and a forecast of 2.14m for the whole year. In the 6 months August 14 to January 15, 35,500 individual members visited one of the One Leisure sites. Monthly membership satisfaction surveys are taking place. These have identified customer improvements which have been and continue to be implemented. The introduction of the new membership package will ensure customers have the opportunity to only pay for what they are using, and providing cost benefits for regular users of the facilities.

4. CONCLUSION

4.1 It is recognised that the 2015/6 budget will be challenging, and will turn a financial deficit into a surplus of £344K. However, if this outcome is achieved, the One Leisure improvement programme will be well on it's way to attaining the financial objectives mentioned earlier.
The investment in management and staff training and the continuing quest for exemplary service levels will be supported by an investment programme designed to maintain or improve the quality of the sites and equipment such that an outstanding user experience is provided.
This service will be delivered by highly motivated local management who, with their staff, have been empowered to innovate and adapt their offering to meet local conditions and to combat competition, thus eliminating the highly centralised systems of the past.

BACKGROUND PAPERS
None

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